APRIL 13-17, 2020

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SAFETY FIRST

INVESTORS SEEK THE COMFORT AND SECURITY OF ANNUITIES AS COVID-19 UPENDS DAILY LIFE AND UNWINDS A HISTORIC BULL RUN PAGE 8

NEWSPAPER | VOL. 24, NO. 15

TopNews

ACCURACY / EXCELLENCE / FAIRNESS / IMPARTIALITY / INDEPENDENCE

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EDITOR'S NOTE

Credible vs. incredible information

"Friendly reminder in times of uncertainty and misinformation: anecdotes are not data. (Good) data is carefully measured and collected information based on a range of subject-dependent factors, including, but not limited to, controlled variables, meta-analysis, and randomization."

GEORGE B. MORIARTY

While we find our way through the COVID-19 situation, I loved this wisdom found on my Twitter feed last Tuesday.

The point is essential to how we endeavor to serve you, our readers, and what will inform our efforts in the future when we return to our new normal.

We remain laser-focused on identifying and delivering the information you need to serve your clients. This is why we have launched our Navigating 2020 series, which has included three webcasts so far, with four more events coming over the next two months. The series is informed by and reacts to this ever-changing environment. (You can find more information at http://investmentnews.com/navigating2020)

All the content that we put forth will be developed based on feedback we gather and analyze, and they will provide you with the information you need so that you and your clients can succeed in this new reality, which is tumultuous and odd.

Underscoring just how odd a time we are in? The quote above came from Steak-Umm (@steak-umm).

gmoriarty@investmentnews.com
Twitter: @geomoriarty

Fed's aid package leaves advisers hopeful, confused

BY JEFF BENJAMIN

FINANCIAL ADVISERS are scrambling to keep up with the rolling waves of government stimulus efforts aimed at keeping the economy afloat during the COVID-19 pandemic.

When the Federal Reserve announced a $2.3 trillion aid package last Wednesday that included access to four-year business loans, most advisers were still working with clients to digest the stimulus measures in the Cares Act, which included smaller forgivable loans under the Paycheck Protection Program.

KEY POINTS

- The Fed's $2.3 trillion package included four-year business loans.
- The Fed's program follows the Cares Act's Paycheck Protection Program loans.

"I was literally just on the phone with a client who was asking about the loans," said Kashif Ahmed, president of American Private Wealth.

"I have spoken to many clients, reaching out to business owners proactively to alert them to these resources, and frankly none of them seem interested partly because their personal finances are in great shape and also their business segments remain resilient," Ahmed said. "One client had to shutter their business because they own a party supply store, and all of them had ground to a halt. They are waiting it out, but I told them to apply for the stimulus money even if they don't need it yet. They can always prepay it, but it's better to have it in case they need it."

The Fed rescue effort is so large and fast developing that most advisers are having to adjust on the fly as the program roll out and evolve.

BANK RELATIONSHIPS

"It's a great program, but only if you can access the funds," said Jim Dickson, chief executive at Sanctuary Wealth.

"If you had a relationship with a bank, it felt easier to gain access to funds, but if you didn't it's been hard to find a bank and start the relationship," he said.

Dickson, who oversees an advisory business that includes 40 partner firms in 15 states, said the second stimulus package is a good sign, but also reflects how quickly the rescue efforts are changing.

"This new program is hard to digest, and it feels like things keep moving around," he said. "As with PPP, what it was said to be and what it became has already changed, but the Fed is saying

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LPL halts sales of some less liquid investments

BY JEFF BENJAMIN

LPL FINANCIAL IS shutting down sales of some investment products that contain less liquid and hard-to-price assets such as real estate.

After blocking sales of eight nontraded real estate investment trusts last Monday, the nation's largest independent broker-dealer extended that policy to include several publicly traded property interval funds.

Limiting access to less liquid investments was described as a prudent strategy at a time when prices on assets such as real estate are likely to be affected by economic fallout from the COVID-19 pandemic.

"It makes sense, if you look at portfolios of interval funds, they will be nontraded REITs and institutional property funds that are all subject to the same risks related to these markets," said Jacob Mohs, manager of the Interval Fund Tracker website. "It's hard to rationally value those assets because there's no activity in real estate right now."

LPL declined to provide details on the decision or the specific funds, but the company did confirm the decision in an emailed statement from Rob Pettman, executive vice president of products and platforms.

"Due to the nature in which real estate is often valued, and out of an abundance of caution, LPL decided to tempo-

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What is a 'good faith' effort on Reg BI?

BY MARK SCHOEFF JR.

NOW THAT FINANCIAL firms know that the deadline for implementing the Securities and Exchange Commission's higher investment-advice standard for brokers remains June 30, they have to figure out what "good faith efforts" on implementation entail.

Earlier this month, SEC Chairman Jay Clayton announced that Regulation Best Interest for brokers and the client relationship summary disclosure document, known as Form CRS, must be implemented by the original compliance deadline despite dislocations firms may be going through as a result of the COVID-19 pandemic.

Clayton said the SEC expects firms to "make good faith efforts" to comply by June 30. Last Tuesday, the agency released two risk alerts to offer more detail on the examinations that will commence during the first year of the new rules going into force.

The Reg BI risk alert says the SEC Office of Compliance Inspections and Examinations will evaluate whether firms have "made reasonable progress in implementing those policies and procedures." The Form CRS risk alert also emphasizes that OCIE is looking for a "good faith effort" regarding implementation.

JAY CLAYTON

Both alerts acknowledge that the coronavirus has "created challenges for firms" and say the agency will work with them on problems that may arise.

WHAT 'GOOD FAITH' MEANS

So what does "good faith" implementation mean at a time when many firms are working remotely?

"I liken it to walking into the teacher's office with your homework due," said Aladin Abughazaleh, chief executive of ATA RiskStation, a cloud-based provider of technology for portfolio risk monitoring, client engagement and compliance. "If you have your hands in your pockets and say, 'I've got nothing,' that's not good faith. [Firms] need to demonstrate some path they're on to show they're taking this seriously and a clear road map for how they're going to be able to document all those requirements."

Lawrence Stadulis, a partner at Stradley Ronon Stevens & Young, said

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Near-retirees drain target-date funds at a rapid clip in March

BY EMILE HALLEZ

MANY INVESTORS who are within 20 years of retirement have reacted to the current market conditions by selling target-date fund assets.

In March, about $9.4 billion flowed out of target-date funds in vintages 2035 and lower, with the biggest outflows coming from funds dated 2020, according to a paper published last Thursday by Morningstar Inc.

Meanwhile, net inflows to 2040 target-date funds were slightly positive, and new sales into longer-dated funds were larger, according to the report.

"It's another sign of how scared people got in March," said the report's author, Jason Kephart, a senior manager and research analyst for Morningstar. "It was the fastest 20% [market] decline ever, and you had so much uncertainty."

In 2020 funds, investors pulled more than $5 billion in March. Morningstar compared that with the outflows from 2015 funds during the first quarter of 2015. In the first quarter of 2015, investors withdrew about 1% of total assets from that vintage, compared with 4% in the first quarter of 2020 from 2020-dated funds, the paper shows.

Outflows from target-date funds that have reached their target dates are expected, but not at that rate, Kephart said.

"It definitely seems like people are pulling [money] out faster," he said.

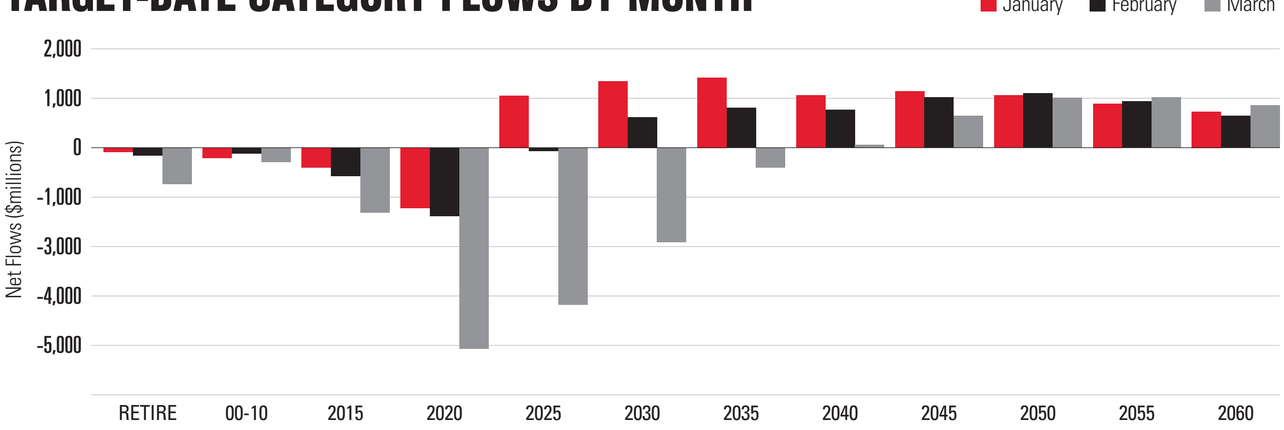
The effect of the market drop and COVID-19 was seen even in 2025, 2030 and 2035 vintages, with investors pulling money from all three. That is significant because target-date funds are intended to be long-term investments, and investors typically do not withdraw assets so far from the products' maturity.

The sell-offs could mean that investors locked-in losses, instead of giving their assets time to recover.

"Time is your friend in a situation like this," Kephart said. "The further you are from retirement, the better off you are just staying in."

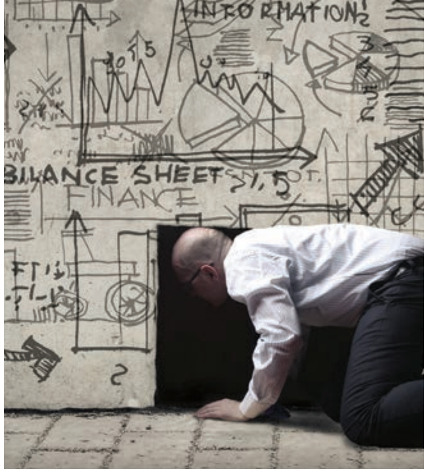
ehallez@investmentnews.com
Twitter: @emilehallez

TARGET-DATE CATEGORY FLOWS BY MONTH



Source: Morningstar Direct

Data as of March 31, 2020



Why finding your 401(k) fees is like solving a mystery

One of my favorite shows as a kid was "The Price Is Right." Watching the daytime program usually meant that I wasn't at school, and I got a glimpse into the wonders of the material possessions that grown-ups, with money, could acquire.

As an adult, I am far less enthusiastic. But I get it — there is a quirky joy in accurately guessing how much something costs. This week, I had that experience with my 401(k) plan, albeit with more consternation than joy.

INSIDER
EMILE HALLEZ

As a recent hire at *InvestmentNews*, I was eligible to enroll. Doing that much was no sweat. Getting information about how much I would be paying for record keeping and administration was altogether different.

This goes against the level of transparency the Department of Labor sought to add to retirement plans through its fee-disclosure rules a decade ago. But record keepers and plan sponsors generally comply with those rules; if those regulations have made any difference, I shudder to think of what access to information was like before.

It took me a fair amount of clicking and scrolling through fine print to find the form showing what fees participants in my company's plan pay. But that provided only a list of possible charges, based on total plan assets.

The form directed me to call the plan record keeper to find out which fee bracket applied to the plan. Doing so entailed my pleading with a robot for several minutes to connect me with a real human being.

The rep with whom I eventually spoke pointed me to the form I had, and I did not walk away with any more information.

ROUGH ESTIMATE

Based on my calculations, an account with $100,000 in the multiple-employer plan *InvestmentNews* participates in would pay as much as $424 a year for administrative services, or as little as $74, depending on the assets in the plan. (Full

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Not all 529 savings plans make the grade amid the recent market volatility

BY EMILE HALLEZ

THIS YEAR'S MARKET volatility tied to COVID-19 has affected nearly all investors — including students who will soon start their first semester of college.

The stock market drop has hit 529 college savings plan portfolios, though not equally. Many 529 savers, particularly those in direct-sold plans, are invested in age-based portfolios, which shift allocations away from stocks and toward bonds over time. In adviser-sold plans, 529 account holders have the benefit of professional advice, which might have positioned them better than those without it in the current crisis.

"The account owners who need to be concerned are those who have kids matriculating within the next six months or who are in college now," said Andrea Feirstein, managing director of AKF Consulting. For investors who are in target-date-style portfolios, "you could be exposed to a very significant drop in the value of your account, or you locked in some losses if your kid [just] moved age bands or down the glide path."

Those portfolios vary in design. Some have near-matriculants in heavier equities allocations than others. And while glide paths in the investments have improved in recent years, some still have steep "step-downs" to de-risk, meaning that some accounts might be selling out of stocks at a low point and locking in losses, Feirstein said.

AGE-BASED RETURNS

On average, age-based 529 investments have seen returns ranging from as much as 0.32% to as little as negative 20.33% this year through March 31, depending on the age bracket or matriculation target year, according to data from Morningstar Direct. Investors in the target-enrollment 2015 portfolios are the only ones who saw slightly positive returns, while those in portfolios built for matriculation in 2039 or later fared the worst, according to the Morningstar data.

"There weren't many places for investors to hide," said Madeline Hume, an analyst on Morningstar's multi-assets and alternatives team. However, "every single bracket that gets closer to matriculation performed better than the one before it, so that is encouraging."

At one firm, American Funds, account activity has been low, though some 529 investors are rebalancing, Russ Tipper, senior vice president at parent firm Capital Group, said in a statement.

KEY POINTS

- Age-based 529 plans shift to safer allocations over time.
- Adviser-sold plans that offer guidance may be positioned better in the current crisis.

"We are not seeing increased redemptions from these 529 accounts but rather exchanges — whereby some investors are making changes to the construct of their portfolio and lessening exposure to equities," Tipper said.

For students who lost considerable amounts and are about to enter college, "it's very difficult for an investor to make up that ground when they have such a short time horizon," Hume said.

Across the country, the performance within plans varied considerably. The plans that did best — and worst — had single age-based options, she said. The ones with more conservative allocations, such as Virginia's College America Plan, did comparatively well. Those that took more equity risk, including Alaska's 529 plans, did not fare as well, Hume noted.

Not all 529 investors are in age-based portfolios, and those who have do-it-yourself portfolios could be seeing steep declines in their accounts if they invested heavily in equities. At least 60% of investors who are in direct-sold plans overseen by states have their assets in age-based portfolios, Feirstein said.

Unlike adviser-sold plans, "the [direct-sold] plan is not on the hook to give you any financial advice about what to do in a situation like this," she said.

College savings plans have become a little more sophisticated since the 2008 financial crisis, with many lowering the investment risk considerably since then for account holders who are about to start college, Feirstein said. And "just about every plan" made positive changes to its glide path in 2017 and 2018, making the step-downs less severe, she noted.

"The plans have made a lot of improvements," Feirstein said.

There was about $346 billion in assets across 13.4 million 529 savings accounts as of the end of 2019, according to data from ISS Market Intelligence. Of that, about $201 billion was in direct-sold programs and $145 billion was in adviser-sold programs.

PREPAID ACCOUNTS

There was an additional $25 billion among 1 million prepaid 529 accounts.

Aside from the performance impact on these accounts, the current economy will have at least two major consequences for 529 plans. First, parents and grandparents will be less likely to start accounts or contribute to existing ones, especially if they recently lost their jobs, Feirstein said.

"College savings contributions are going to take a back burner to paying

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Finra proposes rule to keep tabs on rogue brokers

BY MARK SCHOEFF JR.

A FINRA PROPOSAL to increase supervision of brokers going through disciplinary proceedings is a step in the right direction to address problems related to rogue brokers, investor lawyers and advocates say.

The Financial Industry Regulatory Authority Inc. filed on April 3 with the Securities and Exchange Commission a rule proposal that would allow hearing officers to impose on firms stronger supervision requirements for brokers who are appealing a disciplinary matter to the National Adjudicatory Council.

"HEIGHTENED SUPERVISION IS SOMETHING THAT SHOULD BE USED MORE OFTEN"

LISA BRAGANCA, SECURITIES ATTORNEY

In addition, the proposal would impose strengthened supervision of brokers who are appealing statutory disqualification and would require a BrokerCheck disclosure of firms designated as a "taping firm" that must tape the conversations of its registered representatives because of previous disciplinary problems.

APPROVAL REQUIRED

The final prong of the rule would require firms to seek approval when they want to hire someone who has

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Opinion

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Deadly virus shows advisers need their own backup plan

Financial advisers and other industry professionals are not immune to the COVID-19 virus, which is projected to claim more than 100,000 American lives and leave some of those who survive disabled. So, unfortunately, over the coming weeks we'll start to hear about more coronavirus deaths in our industry.

InvestmentNews already reported the passing of Peregrine (Peg) Broadbent, the chief financial officer of Jeffries Financial Group's main subsidiary. He was 56.

But this scary and unprecedented time is an opportunity to remind advisers that all firms should have continuity plans that take effect if advisers become disabled or pass away.

Such agreements are separate from a firm's business continuity plan, a document that regulators require advice firms put together to make sure they can operate and meet client needs during an emergency. A continuity plan – which some think of as a mini-succession plan – ensures that if something happens to the adviser, clients have another adviser they can call for help with their asset management, planning or even just reassurance.

PLANNING FOR EMERGENCIES

Advisers work with clients over decades to plan for emergencies that might suddenly take them away from those who depend on them, but they tend to avoid doing the same thing for their own obligations — including their firms and their clients.

Imagine a client, who's panicked by the recent volatility and afraid for their own physical and financial health, reaching out to their financial adviser, only to learn from an assistant that their planner has passed away and there's no one to immediately help with the client's investment needs. Clients deserve better.

WHO DOES WHAT

The best continuity plans outline who needs to do what and when for every aspect of the business and details how to do it.

While there are not great statistics tracking the creation of continuity plans, only about half of the nation's financial advisers have one, and only about half of those are actual signed agreements, according to experts who work with advisers on succession planning. The reality is that without such plans, client accounts will likely become "orphans" if their adviser passes away, and the adviser's family will not receive money for the value of the business. No one wins.

Even advisers who have created long-term plans for selling or passing down their businesses are not exempt from needing a continuity plan.

Practically speaking, succession plans that a firm may work on for years can't be carried out if the adviser doesn't live long enough to turn over the reins. And just as the coronavirus is unpredictable in terms of how it impacts each person's health, life does not guarantee that younger advisers will outlive older planners.

NO ONE IN CONTROL

When a partner in an advisory firm dies without a plan, it can wreak havoc on the business for years to come.

As *InvestmentNews* reported several years ago, clients whose advisers die without leaving another adviser in control are sad, but also angry, at the lack of planning. Clients all said they would never again agree to work with an adviser without knowing whether he or she had a continuity plan in place.

Truth is, all advisers owe it to their clients to have a plan in place in case they are no longer able to serve them.

WHEN A PARTNER IN AN ADVISORY FIRM DIES WITHOUT A PLAN, IT CAN WREAK HAVOC ON THE BUSINESS FOR YEARS TO COME.

WE WANT TO HEAR FROM YOU. Send a letter to the editor with your thoughts about a story we've published, and include your name, title, company, address and telephone number for verification. Keep your letter under 250 words, and email it to George B. Moriarty at gmoriarty@investmentnews.com. All letters will be edited.

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Chief Executive Officer
Christine Shaw, cshaw@investmentnews.com

EDITORIAL
Chief Content Officer: George B. Moriarty
gmoriarty@investmentnews.com
Managing Editor: Paul Curcio
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212-210-0154
Business Solutions Manager:
Judith Kelly, jkelly@investmentnews.com
212-210-0167
Business Solutions Manager:
John Shaughnessy, jshaughnessy@investmentnews.com
212-210-0112
Business Solutions Manager:
Jason Anciulis, janciulis@investmentnews.com
312-280-3115
Account Executive: Michelle Richard
mrichard@investmentnews.com, 212-210-0238
Director of Client Services: Shara Richter
srichter@investmentnews.com, 212-210-0719
Director of Event Sales:
Dan Rubinetti, drubinetti@investmentnews.com
212-210-0432
Business Solutions Manager & U.S. Events:
Sabrina Straub, sstraub@investmentnews.com
646-437-7956
Reprint Manager: Laura Picariello,
lpicariello@investmentnews.com 732-723-0569
Sales Operations Manager: Letitia Y. Buchan,
lbuchan@investmentnews.com 212-210-0451
Customer Success Associate: Caroline Murphy,
cmurphy@investmentnews.com 212-210-0476

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Irma Rodriguez, irodriguez@investmentnews.com
212-210-0430

PRODUCTION
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Production Manager: Paul Vaccari

INVESTMENTNEWS OFFICES
Headquarters: 685 Third Avenue, New York, NY 10017-4024
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INvoices *InvestmentNews* readers react to top stories

MARY BETH FRANKLIN

IN THIS WEEK'S *IN*VOICES, we offer a reader mailbag from contributing editor Mary Beth Franklin. Mary Beth is a nationally recognized expert in Social Security claiming strategies. You can look for an update to her e-book – **Maximizing Your Clients' Social Security Retirement Benefits** — soon.

Choosing between retirement and survivor benefits

Paula: I am a widow, aged 64, and planning to retire in June 2020. Can I claim my own lower retired-worker benefit first and wait to claim the higher unreduced widow benefit at my full retirement age?

MBF: Yes. Social Security retirement and survivor benefits are two different pots of money. You can claim your own reduced retirement benefits in June 2020. You can apply for those benefits online (www.ssa.gov) as local Social Security offices are closed to the public during the COVID-19 pandemic.

When you reach your full retirement age, you can then switch to your full survivor benefits, equal to 100% of what your husband was collecting (or entitled to collect) when he died. Even though your retirement benefits were reduced because you claimed them early, it will have no impact on your survivor benefits if you are at least FRA when you claim them.

You will have to apply for your survivor benefits in person. At that point, your own smaller retirement benefit would go away.

Who qualifies for survivor benefits?

Mark: A client, age 62, just lost his wife, who was 58 when she died. They have a daughter age 26 and son age 19. Are the kids entitled to survivor benefits? What are the husband's claiming options? He earns about $45,000 per year.

MBF: Unfortunately, the children are too old to qualify for survivor benefits. Dependent benefits are available to surviving children up until age 18 (or 19 if still in high school) and permanently disabled adult children who were disabled before age 22.

The husband is eligible for reduced survivor benefits now, but they are subject to earnings restrictions if he claims them before his FRA. In 2020, he would forfeit $1 in benefits for every $2 earned over $18,240. ($45,000 - $18,240 = $26,760/2 = $13,380 in lost benefits. If his survivor benefit is worth more than that, it may be worth claiming.

Alternatively, if he waits until his FRA, he could claim full survivor benefits even if he is still working since Social Security benefits are not subject to earnings restrictions after FRA. In the meantime, his own retirement benefit would continue to grow up to age 70. Retirement benefits — but not survivor benefits — increase by 8% per year between full retirement age and age 70.

Step up to larger spousal benefit

Denis: I am 60 years old and the larger earner in my family. I plan to file for Social Security at my FRA when my estimated benefit will be $3,100 per month. My wife turned 62 in January 2020. If she claims Social Security now, she would receive $513 per month vs. $721 if she waits until her FRA. Can she claim her reduced retirement benefit now and step up to a larger spousal benefit later?

MBF: Yes, your wife can claim her own reduced retirement benefit now at 62 and will step up to a larger benefit once you file for Social Security. But her new larger benefit will be worth less than half of your FRA amount because she claimed her own benefit early.

To estimate her future benefit, you must calculate the "excess spousal amount." To do that, determine half of your FRA amount ($3,100/2 = $1,550) and subtract her FRA benefit ($721). The excess spousal amount is $829.

Your wife could collect $513 per month now. Once you claim, SSA adds the excess spousal amount ($829) to her reduced retirement benefit for a new total of $1,342 per month. She would never receive the full spousal amount of $1,550 because she claimed her own retirement benefit early.

But if you died first, she would still be entitled to full survivor benefits — worth 100% of what you were collecting at death — if she was at least FRA at the time.

Age gap thwarts claiming strategy

Terry: I am still working at age 69 and plan to draw my Social Security at age 70. My spouse is age 62 and still working. She plans on starting her Social Security at her FRA. But after reading your recent column about claiming strategies for married couples, I wonder if there is a better strategy for us?

MBF: Unfortunately, due to the age gap between you and your wife, no creative claiming strategies are available to you.

Although you were born before the Jan. 1, 1954, cutoff date that would allow you to claim half of your wife's FRA benefit amount, she must claim her Social Security to trigger a spousal benefit for you. And because she is under FRA and still working, she would be subject to earnings restrictions ($18,240 in 2020) that could reduce or even eliminate both her retirement benefits and any spousal benefits you tried to collect on her earnings record.

Medicare Part D enrollment

Dominic: If someone turns 65 and does not sign up for a Medicare Part D prescription drug plan because they have group coverage at work, will they be penalized if they sign up after that coverage ends?

MBF: If you have creditable prescription drug coverage through your current employer or your spouse's current employer, you can enroll in Medicare Part D penalty-free once that group insurance ends.

However, there is a different special enrollment period for Part D. You have only 63 days to enroll in a Medicare Part D drug plan after your group insurance ends, compared to eight months to sign up for Medicare Part B health insurance.

Mary Beth's expert eye provides the *IN* community with invaluable insight into managing these issues for your clients. Do you have a question for Mary Beth or any of our staff writers? Please reach out to them directly, or to Chief Content Officer George Moriarty at gmoriarty@investmentnews.com.

ANNUITI
CENTER

AS THE PANDEMIC ROILS MARKETS, AMERICANS INCREASINGLY SEEK THE SAF

THE COVID-19 PANDEMIC has given people many reasons to be nervous, not least of which being how it has hurt their investments and their ability to retire.

With the stock market plummeting, many investors say they now have a different view on risk. This change in mindset, according to analysts, advisers and insurers, will lead people to consider products they previously wouldn't have touched. Enter annuities.

"There's a flight to safety," said Sheryl Moore, CEO of Moore Market Intelligence. "If this is anything like things were in 2008 and 2009, we're actually going to run into issues with the supply and demand of annuities."

That will favor products like indexed annuities, but much depends on how insurance companies adjust their products in the coming weeks and whether they suspend sales

ES TAKE
R STAGE

FETY OF GUARANTEED INCOME AS THEY ENTER THEIR THIRD ACT BY EMILE HALLEZ

on some annuities, Moore said.

"I would anticipate [that] we're probably going to have record sales of indexed annuities this year," she said.

Nearly 30% of investors said they plan to decrease their level of risk as a result of the COVID-19 pandemic, according to a survey commissioned in March by LendingTree's MagnifyMoney site. Meanwhile, 32% said the pandemic will have no effect on their future investment decisions. An additional 23% said they planned to keep money out of the stock market, and 21% said they would further diversify their portfolios, according to the survey results. That report included responses from more than 1,000 U.S. investors.

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ANNUITY SALES ($B)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
VARIABLE												
Deferred (less registered index-linked)	155.6	127.9	140.5	157.9	147.4	145.5	138.4	130.2	99.1	89.0	89.0	84.5
Immediate	0.1	0.1	0.0	0.03	0.03	0.05	0.13	0.12	0.08	0.01	0.00	0.00
Registered index-linked			*	*	*	*	1.94	3.68	7.30	9.16	11.22	17.43
TOTAL VARIABLE	**155.7**	**128.0**	**140.5**	**157.9**	**147.4**	**145.6**	**140.5**	**134.0**	**106.5**	**98.2**	**100.2**	**101.9**
FIXED												
Fixed-rate deferred	68.3	67.6	36.4	34.9	24.7	29.3	30.8	30.9	38.7	34.2	45.7	47.5
Indexed	26.7	29.9	32.1	32.2	33.9	39.1	47.8	53.5	59.1	55.0	69.6	73.5
Fixed immediate	7.9	7.5	7.6	8.1	7.7	8.3	9.7	9.1	9.2	8.3	9.7	9.9
Deferred income				0.2	1.0	2.2	2.7	2.7	2.8	2.2	2.3	2.5
Structured settlements	6.4	5.6	5.8	5.1	5.0	5.3	5.4	5.5	5.8	5.6	6.2	6.5
TOTAL FIXED	109.3	110.6	81.9	80.5	72.3	84.2	96.4	101.7	115.6	105.3	133.5	139.8
TOTAL	**265.0**	**238.6**	**222.4**	**238.4**	**219.7**	**229.8**	**236.9**	**235.7**	**222.1**	**203.5**	**233.7**	**241.7**

Source: Secure Retirement Institute
Dollars in billions
*Products have been on the market since 2010. Prior to 2014, sales of registered index-linked are in the deferred VA category.

CONTINUED FROM PAGE 9

BUYING GUARANTEES

For risk-averse investors, annuities can provide peace of mind because of the payments they guarantee. The trade-off, often, is that investors give up at least some of the upside they would see by investing in stocks.

Demand for products is expected to increase this year, particularly after the pandemic subsides and volatility dampens. But the rates and guarantees that have been selling points for years simply aren't what they used to be.

"Many of our clients who call in concerned about the markets are asking about annuities. The same clients who just months ago would quote articles on why annuities are the root of all evil have started to enquire," said Charlie Rocco, CEO of financial planning firm Rocco & Associates, in an email. "Unfortunately, now is not the time to make a change from an investment account over to an annuity."

BEST TIME TO BUY

With rates being low, buying an annuity now can have "the same effect as buying high and selling low," Rocco said. "The best time to secure retirement income using an annuity is at the toughest time to do so, when the markets are high and great returns seem to have no end in sight."

At the end of 2019, indexed annuities had an average rollup rate for their guaranteed lifetime withdrawal benefits of 6.35% — the highest it had been since 2012, according to data from Moore. Now that rate, which is used to calculate the living benefits base, sits at 5.58%, the data show. Further, the annual performance cap that insurers put on indexed annuities is now at an average of 3.37%, which is the lowest it has been since 2016, according to Moore.

Companies have also notched down the annual withdrawal rates on products with lifetime guarantees. Those figures are based on the age at which contract holders begin taking payments. If a product previously had an annual payout rate of 5% for life, it might be at about 4% now, for example, Moore said.

For advisers, those indexed annuities are now paying smaller commissions, on average. At the end of 2019, the average commission rate was 5.74%, down from 6.23% a year earlier and 7.62% as far back as 2008, according to Moore.

Amid the market crisis this year, insurers have been "de-risking," Moore said. That has entailed lowering the roll-up and guarantee rates, raising fees and restricting sales of some products.

A handful of insurers have pulled their lines of fixed annuities entirely. That followed an adjustment the Fed made to its target rate, bringing it to a more-than decade low of zero to 0.25%. That made the holdings insurers use to back their products less effective, at least for the rates customers have sought.

Unlike fixed annuities, indexed annuities do not have a guarantee for the annual yields on the principal base.

RETHINKING RISK

One of the larger annuity providers, Allianz Life, has not pulled its products from shelves, though it has adjusted them. On its Core Income 7 fixed indexed annuity, for example, the company increased the product fee to 1.25% from 1.05%, and the rate for its level-payout option dropped by 20 basis points, said Corey Walther, president of Allianz Life Financial Services. But the company has not changed the annual payout increase rates for people who opt for that feature, he said. Customers make the choice for either level or annual increase payout options at the time they take distributions, he noted.

With the stock market teetering and interest rates low, "now more than ever, we really believe that people coming out of this will be much more attuned to risk," he said.

"This is such a good reminder that bear markets do happen. Black swans do happen," Walther said.

As a result, advisers and clients will be working on risk management, he said.

Part of that will include tax considerations, Walther said. The massive size of the current government stimulus package and growing deficit hints that tax rates could go up in the future, he said.

SALES EXPECTATIONS ARE LESS THAN ROSY

Last year was a record year for U.S. annuity sales. The products pulled

SURVEYS SAY INVESTORS ARE ANXIOUS

SEVERAL SURVEYS show that investors are very concerned about the impact the COVID-19 pandemic is having on their retirement savings, and 401(k) participants are open to the idea of annuities as an option in their retirement plans.

- **38%** of investors said they are worried about losing all of their retirement assets. (MagnifyMoney survey of 1,520 Americans)
- **29%** plan to decrease their level of investment risk. (MagnifyMoney)
- **59%** saw the value of their investments fall, and 26% were not sure. (MagnifyMoney)
- **78%** are confident the stock market will recover. (MagnifyMoney)
- **51%** have used savings or emergency funds during the pandemic. (LendEDU survey of 1,000 Americans)
- **63%** are worried about running out of money in accounts, generally, due to COVID-19. (LendEDU)
- **72%** are worried about the impact on retirement savings. (LendEDU)
- **60%** are worried about ability to make mortgage payments. (LendEDU)
- **39%** have taken on more credit card debt to cover expenses. (LendEDU)
- **77%** of defined-contribution plan participants would consider a "guaranteed lifetime income" option. (Allianz Life Insurance survey of 558 Americans in employer-sponsored plans)
- **59%** of plan participants said they would consider in-plan annuities, specifically. (Allianz)
- **60%** of participants are unaware of the benefits of annuities. (Allianz)

Sources: LendEDU, MagnifyMoney

in $241.7 billion in new business, up 3% from $233.7 billion in 2018, according to data from Limra's Secure Retirement Institute.

Few people seem to have rosy expectations for variable annuity sales this year. Those products — which are often sold with riders that provide guaranteed lifetime withdrawals — hold mutual funds as their underlying investments.

But so-called "buffered" or "structured" annuities could be an exception. Those products, most recently dubbed "registered indexed-linked annuities," are a subset of VAs that have caps on returns and limitations on performance losses. They have a wider range of returns than the yields available on indexed annuities, making them potentially more suitable for investors who want a higher level of risk.

Buffered annuities sold well last year and were largely responsible for VAs as a whole, having their best sales year since 2008.

"That product category is poised to also do very well coming out of this," Walther said. Despite the state of the stock market, those annuities currently have performance caps as high as 16%, he said.

"Why take a risk of investing in the equities market when you still have that level of potential upside?" he said.

> **"THIS IS SUCH A GOOD REMINDER THAT BEAR MARKETS DO HAPPEN."**
>
> COREY WALTHER, PRESIDENT, ALLIANZ LIFE FINANCIAL SERVICES

BUT HOW MUCH BUSINESS DO INSURERS WANT?

Another factor that will determine sales volume is how much business insurers want to take on. Over the past decade, companies that provided competitive rates and prices on their VAs saw bursts of new business. Not wanting to issue more contracts than they were comfortable backing, they took steps to limit new sales. That included raising fees, lowering the rates on living benefits or restricting the investment options for contracts with guarantees attached to them.

"When something like this happens so early in the year, they have to play a fine line" of selling enough but also making sure it's profitable business, Moore said.

In the fixed indexed annuity business, there has been "a very large decrease in the amount of upside potential that a client can earn," said Brian Lipinski, principal at fixed-annuity distributor Simplicity Pittsburgh, in an email.

"The small list of carriers that are eager to gain distribution have maintained attractive pricing, so we expect these carriers will see increased volume for as long as they have the appetite for the premium."

As the pandemic slows down, some investors will inevitably be thinking about ways to put a guarantee on their retirement paychecks, advisers said.

"A portfolio shock like many are experiencing today can be eliminated by the proper use of income planning, by using the guarantees provided by some type of annuities," financial planner Matt Chancey wrote in an email. "Many clients sleep better at night with some type of guaranteed income."

ehallez@investmentnews.com
Twitter: @emilehallez

$1.2M AMOUNT IN CASH AND STOCK SOCIAL FINANCE INC. AGREED TO PAY FOR GALILEO TECHNOLOGIES

Planning evolves beyond investment amid crisis

BY JEFF BENJAMIN

THE FINANCIAL advisory industry is learning on the fly and in many cases adapting well to the COVID-19 world where working remotely means taking on new challenges and relying more heavily on technology to communicate with clients and colleagues.

With that in mind, an *InvestmentNews* webcast March 31 tapped into the experiences of financial planning professionals to take a closer look at the techniques, communication and delivery needed to optimize advisory practices during the global pandemic.

The silver lining that many financial firms are quickly recognizing is that working from home might be an underrated and overlooked opportunity for basic business management.

"None of us could have pictured this, but I'm amazed at how effectively our people are working and how seamlessly they're transferring calls, doing trades, and doing reviews," said Gerard Klingman, founder and president of Klingman & Associates.

"I think a lot of us will think about how we work going forward because we've been so productive under these circumstances," he added.

PLEASANTLY SURPRISED

David Armstrong, president and co-founder of Monument Wealth Management, has also been pleasantly surprised with the transition to remote work.

"I've been joking that it will be difficult to convince people to come back to the office because it's going so well," he said. "It has driven serious questions about what our future office space looks like. I'm thinking when the lease comes due, we could cut office space in half."

After just a few weeks of having his company work remotely, Armstrong is already envisioning a wealth management firm where employees have lockers instead of workspaces.

"If you need privacy and personal space, just stay at your kitchen table," he said. "Of course, I would be putting that office space expense back on the employee to expand their home office space."

Klingman and Armstrong were two of the four panelists discussing what has become the new normal for how financial professionals continue operating by placing a greater focus on the general well-being of clients and employees, and less on financial markets.

Mike McDaniel, co-founder and chief investment officer of Riskalyze, said prior to the COVID-19 outbreak his company drafted a questionnaire to see how employees felt about working remotely.

KEY POINTS

- Working remotely means taking on new challenges and relying on tech.
- Firms are realizing that working from home might be an overlooked opportunity.

"We're now holding off on sending out that questionnaire until everyone has done it for a few weeks," he said. "I think a lot of folks like the idea of working from home."

But even as advisers and others are adjusting to working remotely, there are many nuances that should be considered when relying on technology for professional and personal interactions.

BEHAVIORAL FINANCE

Klingman said it's important to keep in mind that clients are not just adapting to communicating via video, they are also dealing emotionally with an unprecedented pandemic that has devastated the global financial markets.

"Don't presume the clients want to talk about their portfolios or the markets," he said. "It ranges from somebody terrified about their health or the health of a family member, to the other extreme of people thinking this is a great time to buy long-term risk assets. But don't make assumptions about what they want to talk about."

Klingman's last point is spot-on, according to Sarah Newcomb, director of behavioral science at Morningstar.

"I agree, advisers should listen first," she said. "Advisers are great listeners and one thing they should listen for is signs of rumination, which can happen whether someone is wealthy or not."

Rumination is similar to anxiety and depression and involves dwelling on a thought or problem that doesn't have a clear resolution.

"When there are so many unknowns like now, we can't solve the problem and our brains go to overdrive with repetitive thoughts of what-ifs," Newcomb said. "The reason rumination is so bad and so dangerous is it shortens your time period. Right now, people have very short-term thinking because they can't predict next week, never mind 10 years from now."

LISTEN FOR SIGNS

Newcomb said advisers should listen for signs of fear and anxiety and then encourage the client to talk about someone who has been an inspiration to them in the past.

"Don't talk about numbers," she added. "Just thinking about their social support network allows people to think longer term and make better decisions. Ask them about their emotional support network."

In terms of communicating over video or phone when face-to-face meetings are not possible, Newcomb said it's important to be as engaged as possible, which means looking into the camera to simulate eye contact and to offer constant acknowledgement of listening when talking on the phone.

"The other part of delivery is tone, and leadership is important even if all you do is stay poised," she added. "There are so many shouting voices right now that people appreciate a calm presence."

In addition to enhancing communication with clients, Newcomb said financial professionals should pay attention to their own well being as the crisis unfolds.

"The first thing we have to recognize is everyone has had their life altered," she said. "We're all so tired right now because our brains have to work harder because we're not in our normal routine. Give yourself permission to rest more and not operate at 100% all the time. We are creating new behaviors and every day we're trying to form new habits and behaviors. This is a great opportunity to break bad habits and start new habits in any area of your life."

jbenjamin@investmentnews.com
Twitter: @benjiwriter

10 fastest-growing IBDs

Growth is good, and some independent broker-dealers expanded at a breakneck pace in 2019, according to data collected from firms that participated in *InvestmentNews*' independent broker-dealer surveys.

10 Cambridge Investment Research Inc.
Change: **10.4%**
Revenue in 2019: **$1,000.6 million**
Revenue in 2018: **$906.7 million**

9 Northwestern Mutual Investment Services
Change: **10.8%**
Revenue in 2019: **$1,351.2 million**
Revenue in 2018: **$1,219.5 million**

8 Independent Financial Group
Change: **11.1%**
Revenue in 2019: **$193.5 million**
Revenue in 2018: **$174.2 million**

7 Packerland Brokerage Services Inc.
Change: **13.4%**
Revenue in 2019: **$26.8 million**
Revenue in 2018: **$23.7 million**

6 Nationwide Planning Associates Inc.
Change: **14.1%**
Revenue in 2019: **$21.7 million**
Revenue in 2018: **$19.0 million**

5 Veritas Independent Partners
Change: **20.8%**
Revenue in 2019: **$1.2 million**
Revenue in 2018: **$0.79 million**

4 Arete Wealth Management
Change: **21.3%**
Revenue in 2019: **$36.5 million**
Revenue in 2018: **$30.1 million**

3 Woodbury Financial Services
Change: **33.3%**
Revenue in 2019: **$498.1 million**
Revenue in 2018: **$373.6 million**

2 Avantax Wealth Management
Change: **36.1%**
Revenue in 2019: **$507.9 million**
Revenue in 2018: **$373.1 million**

1 Royal Alliance Associates Inc.
Change: **59.1%**
Revenue in 2019: **$961.1 million**
Revenue in 2018: **$603.9 million**

Source: InvestmentNews Research

2020 IN Events Calendar

EVENT	DATE	LOCATION/ TOPIC
IN Webcasts Navigating 2020	April 21 May 5 May 19 June 2 June 16	**Bootcamp:** Safeguarding Client Portfolios in Times of Volatility **Webcast:** The New Normal for Advisers **Bootcamp:** Best Practices Post COVID-19 **Webcast:** US Election Outlook **Bootcamp:** US Elections & Washington Insights
women adviser summit	May 14 August 19 August 25 October 1 October 20 November 17	Virtual Chicago Boston Denver San Francisco New York City
RETIREMENT INCOME SUMMIT	August 17-18	Chicago
EXCELLENCE IN diversity & INCLUSION AWARDS	September 15	New York City
FUTURE OF OUR BUSINESS	October 27	New York City
WOMEN to WATCH	November 16	New York City
INNOVATION SUMMIT & AWARDS	November 18	New York City
FUTURE OF FINANCIAL ADVICE	November 19	New York City
ESG & IMPACT FORUM	December 2-3	New York City

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Dan Rubinetti at drubinetti@investmentnews.com | 917-294-9517
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"THIS PROVISION WOULD ALLOW GREATER ACCESS TO PROFESSIONAL ADVICE."
— NEIL SIMON, VP OF GOVERNMENT RELATIONS, IAA, ON ADVISER GROUPS' PROPOSAL FOR NEXT CORONAVIRUS STIMULUS LEGISLATION.

Stimulus package includes helpful provisions for retirees

MARY BETH FRANKLIN

ONRETIREMENT

Although most retirees are insulated from the worries about losing their job that plague younger workers amid the coronavirus pandemic, many are concerned about cash flow and about taking distributions from their shrinking retirement accounts.

The $2 trillion federal stimulus package known as the Cares Act offers several benefits to retirees. For example, some retirees may be surprised — and relieved — to learn that they will qualify for the one-time rebate checks of up to $1,200 per person because eligibility is based on income, not employment.

Individuals with adjusted gross incomes of up to $75,000 will receive a one-time payment of $1,200 and married couples with AGI of up to $150,000 will receive a one-time payment of $2,400. Individuals whose income is between $75,000 and $99,000 will receive a partial rebate check, as will married couples with incomes between $150,000 and $198,000.

90% TO RECEIVE REBATES

The rebate payments will be based on the latest tax return — 2019 for those who have already filed their returns or 2018 for those who want to take advantage of the newly relaxed tax filing deadline of July 15 for 2019 returns. If taxpayers get their Social Security benefits or tax refunds via direct deposits, rebate payments will be deposited in the same accounts. All other rebate payments will be mailed.

About 90% of Americans will receive a rebate payment of some amount, the Tax Foundation estimates. However, some recent retirees may be disappointed. If their latest tax returns show income above the thresholds from when they were still employed, they will not receive a rebate check even if their current income is below the threshold now that they're retired.

Don't despair, said Jamie Hopkins, director of retirement research at Carson Group. "These people should be able to get a credit for the rebate amount when they file their income taxes for 2020 next year." But they won't get a payment this year, he said.

Speaking of taxes, retirees who pay quarterly estimated taxes have until July 15 to make their payment for the first quarter. Second-quarter payments are still due June 15, but that could change. If you expect your income to decline in 2020, you could reduce your quarterly payments to conserve cash.

The Cares Act also waives required minimum distributions from retirement accounts this year, so retirees who don't need the money can leave it in their accounts and avoid paying taxes on those distributions. The waiver applies to traditional individual retirement accounts, SEP IRAs and SIMPLE IRAs, as well as 401(k), 403(b) and government 457 plans.

The RMD waiver includes initial distributions for people who turned 70½ in 2019, who had the option of delaying their first distribution until April 1. That means they get to skip two RMDs in 2020.

If retirees can afford to skip their distribution this year, it offers some planning opportunities, particularly when it comes to Roth conversions, said Jeffrey Levine, director of advanced planning at Buckingham Strategic Partners.

ROTH OPPORTUNITY

Normally, taxpayers who are subject to RMD requirements must take their distribution first before converting excess amounts in their IRA to a Roth IRA. That could lead to a large tax bill, since both the RMD and the Roth conversion amounts are taxable. This year, IRA account holders can skip the RMD and instead convert amounts of their choice to a Roth IRA to create future tax-free income.

"Just because your retirement accounts are down doesn't make it a good time to convert to a Roth," Mr. Levine cautioned, noting that account values could slip even further, and account holders no longer have the recharacterization do-over option. "But if you were considering a conversion from a tax perspective, then this could be a very good time to do it."

Skipping RMDs could lead to lower income tax bills for 2020 and also reduce future Medicare premiums by allowing people to avoid or reduce the impact of high-income surcharges.

What about clients who took their RMD at the beginning of 2020, before the relief legislation was approved?

One adviser wrote to me asking for guidance for a 74-year old client who took his RMD in January. The client doesn't need the money. He only took the distribution because he thought he had to. Now the client wants to know if he can redeposit the money in the IRA.

People who took a now-unwanted distribution within the past 60 days can simply redeposit the money in the plan under the once-per-year rollover rule, Levine said. It's a bit more complicated for people who took their RMDs earlier in the year.

"But if it can be shown that the individual has been impacted by the COVID-19 crisis enough to qualify under the liberal guidelines for a coronavirus-related distribution, then the rollover can still be completed anytime over the next three years starting from the date the distribution was received," Levine wrote in his recent analysis of the Cares Act. Beneficiaries of inherited IRAs who already took their RMD for 2020 are not eligible for this rollover relief, he added.

KEY POINTS

- The Cares Act waives required minimum distributions this year.
- The leeway on RMDs creates an opportunity for Roth conversions.

(Questions about new Social Security rules? Find the answers in my ebook at InvestmentNews.com/MBFebook.)

Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.

mbfranklin@investmentnews.com
Twitter: @mbfretirepro

Group tries again to kill California's auto-IRA program

BY EMILE HALLEZ

A CONSERVATIVE tax lobbying group is not finished with its legal fight against California's auto-IRA program.

On April 1, the Howard Jarvis Taxpayers Association appealed a District Court's dismissal of the group's lawsuit against the California Secure Choice Retirement Savings Program. The program, which launched last year, requires businesses to automatically enroll workers in the program unless the companies already provide workplace retirement accounts.

Last month, the District Court judge ruled that CalSavers is not a plan under the Employee Retirement Income Security Act and therefore is not preempted by that part of the law. That decision followed a previous dismissal, though the plaintiffs were given the chance to amend their complaint.

The state's deadline for businesses with 100 or more employees to comply is June 30, and it will phase in that requirement for smaller businesses over time.

The case was filed in 2018 in U.S. District Court in the Eastern District of California.

Last year, the lawsuit caught the attention of the Trump administration, which sided with the plaintiffs. In September, the Justice Department filed a statement of interest with the court, urging the judge to deny the auto-IRA program's motion to dismiss. The DOJ had similarly argued that the program ran afoul of ERISA, meaning that the state law is inconsistent with federal law.

The state is among many that have either considered or moved forward with public retirement savings accounts for private-sector workers.

ehallez@investmentnews.com
Twitter: @emilehallez

How the COVID-19 crisis is affecting sales of 401(k) and 403(b) plans

There is no doubt that 401(k) and 403(b) plan sales have stalled as a result of the COVID-19 crisis. Retirement plan advisers and record keepers are putting on a brave face but nothing is getting closed. Plan sponsors have more important things to focus on than changing their defined-contribution adviser or record keeper.

GUESTBLOG
FRED BARSTEIN

"Revenue will be off projections without a major [market] comeback," said Craig Reed, director of retirement services at Marsh & McLennan Agency.

Little to no cold calling is occurring. Prospecting during this pandemic, as businesses layoff employees and try to stay afloat, would not be well received.

"Now is not the time to be reaching out," said Rick Shoff, managing director at Captrust.

It's anyone's guess as to when business will return to normal. And assuming it does, when will companies turn their focus to DC plans and look to change providers or advisers? Industry professionals admit that there will be a new normal when that time comes.

Many retirement plan advisers are using this crisis to focus more on customer service – and that is a good idea.

Right now, "sales" means "keeping current clients," said Jay Laschinger, senior vice president of retirement at Alliant Retirement Consulting.

"Set up a file documenting what you are doing to help clients, [and use that] as a prospecting tool in the future," Captrust's Shoff said.

"Beyond the triple Fs" of fees, funds and fiduciary, said David Hinderstein, president of Strategic Retirement Group, "advisers need to focus on plan design and employee communication. Advisers had gotten big, fat and happy – now is the time to reset strategy and process."

The crisis will only accelerate the confluence of wealth and retirement, as plan sponsors see the need not just to communicate with all employees but to help them prepare for a crisis.

Working with clients remotely will also accelerate. And for participants, that will be a welcome change.

REMOTE MEETINGS

"Many participants prefer remote meetings, which can occur during off-hours and include their spouse," said Randy Long, managing principal at SageView.

Two years ago, Captrust introduced its participant advice services. Until now, some plans were reluctant to sign up for it. Now, customers "are reaching out to learn more," Shoff said.

SageView is rethinking its strategy of maintaining offices in all the cities where it has an adviser. "I would not want to be in the commercial real estate business," Long said.

Market crises favor RPAs over wealth managers for a variety of reasons. Retirement plan investing has a more long-term focus, and contributions are automatically deducted from employees' pay. RPAs owned by larger groups have more resources to weather the storm and take advantage of opportunities when business resumes. Not only do larger firms have the resources to help employees, most have cross-selling opportunities.

MORE RFPs

"RFP activity for advisers had been higher than ever this year, before the crisis,"

Shoff said. As the importance that plan sponsors place on advisers grows, RFPs will become more common. That will further separate the dabblers from the specialists. And as the role of the adviser compared to the record keeper or TPA becomes clearer to plan sponsors, so too will the differences in levels of service.

The move to plan-level, flat-fee payments will also quicken, coupled with the use of fees for service, like participant advice. That can help avoid huge revenue losses during market downturns.

"Institutional investment consultants who charge by the hour may also be vulnerable," Laschinger noted.

Will DC plan sales, either through adviser turnover or record keeper change, come back with a vengeance when the crisis is over?

Perhaps, but maybe not right away. Just as in 2008-2009, dabblers who do not communicate effectively and frequently will be exposed. That will lead to opportunities for specialists or force dabblers to become more focused. Dabblers' market share might continue to erode, but their demise is always exaggerated.

In the emerging and smaller markets, where most specialists do not engage, dabblers will have more resources, particularly with pooled employer plans, which will help their value proposition.

Rather than focus on their own businesses, plan providers and RPAs should also envision how their clients will change and then adjust accordingly. The nature of work is changing, whether it involves remote, part-time or gig workers.

Providers and advisers should think about how they can help all employees, not just the high-net-worth or mass affluent. Adjusting businesses strategies takes time, foresight and resources, all of which are in short supply for most advisers, even specialist RPAs.

Fred Barstein is founder and CEO of The Retirement Advisor University and The Plan Sponsor University. He is also a contributing editor for InvestmentNews' *Retirement Plan Adviser newsletter.*

Student loan relief in Cares Act may find few takers

BY EMILE HALLEZ

EMPLOYERS CAN PAY down their workers' student loans by more than $5,000 this year, tax free, under a provision in the Cares Act. But the big question is whether many will consider doing so in the current economy.

Included in the recently passed relief measure is a quirk that allows companies that make payments toward their employees' student loans to contribute as much as $5,250 through Dec. 31, with the money not counting toward workers' taxable income. For people who have jobs and are struggling to pay their student loans, that could be great news.

Across industries, however, companies are laying off or furloughing millions of workers. And many are reducing or eliminating the contributions they make to their employees' 401(k)s.

"Most employers right now are struggling. Most individuals are struggling," said Tara Fung, chief commercial officer at student-loan provider CommonBond. But "there are some companies that are struggling with staffing needs, where this benefit could be helpful."

In some sectors, such as groceries, health care and tech, there has been interest, Fung said.

"MOST EMPLOYERS RIGHT NOW ARE STRUGGLING."

TARA FUNG, CHIEF COMMERCIAL OFFICER, COMMONBOND

The employer student-loan provision is not the only aspect of the Cares Act destined to help alleviate workers' college-debt woes. The new law also allows grads to suspend payments on federal student loans through September.

More than 60% of people with student loans said they are worried about their ability to make payments in the current economy, according to a recent survey commissioned by LendEDU.

'GOOD LEGISLATION'

The tax-free contribution provision in the Cares Act is not new — it stemmed from separate legislation to fix an "outdated part of the tax code" that has been introduced in Congress three times, Fung said.

"This is just good legislation that was passed at a time when th aere was a lot going on, which is why it's being put under a microscope," she said.

Fung said one client, a cosmetics company with 5,000 employees, implemented a student-loan payment benefit of $50 per month, but many workers turned it down.

"They couldn't take the hit to their take-home pay," Fung said. "They would see a decrease of roughly $15."

The temporary Cares Act provision also requires employers to perform nondiscrimination testing to help ensure that highly compensated employees do not disproportionately benefit, Fung said. That kind of testing is already required for most retirement plans.

Retirement plan record keeper Empower Retirement is supportive of the provision, a spokesperson said in an email.

"We believe this is an important benefit that could help student-loan borrowers over the long term," he said. "Many clients have expressed interest in this new provision, however there is currently a greater plan sponsor focus on other issues related to the Cares Act and the more immediate needs of plan participants."

ehallez@investmentnews.com
Twitter: @emilehallez

> **"THE NEW GREAT SERVICE IS CONVENIENCE, AND THAT IS ENABLED THROUGH TECHNOLOGY,"**
> — BURT WHITE, MANAGING DIRECTOR OF INVESTOR AND INVESTMENT SOLUTIONS, LPL FINANCIAL.

How will small firms deal with the crisis?

One month ago, clients and prospects could walk into our offices and sit at our desks. All of that has now changed, and we've had to temporarily become a virtual company overnight.

GUESTBLOG
SCOTT HANSON

How quickly have you been able to adapt?

Our firm employs more than 200 people and, at least until the pandemic hit, we operated physical offices in 17 different cities.

On March 12, we decided we should be ready, just in case, to have 100% of our employees to work from home. Just three days later, we made the decision to cease all in-person client visits. A few days after that, we temporarily closed almost all access to our physical offices.

The logistical requirements and speed that were necessary to transition to virtual operations were astounding. Our technology team was able to procure enough laptops, headsets and other technology so that every one of our team members could work remotely.

Frankly, we would not have been able to accomplish this were we not part of a larger organization. And having of course once been the founder and principal of a small firm, I find it difficult to imagine how others are managing.

While I have no idea how long it will be before it's prudent to have in-person visits with clients, we are prepared to operate remotely for as long as we need to. And no matter how all this unfolds, in many ways, our businesses will likely never be the same.

I know from experience that principals of smaller firms are responsible for just about everything, including IT, investment management, human resources, finance, property management and, of course, advising. Yet our rapid pivot was possible because we have a leadership team whose members are professionals with specific areas of expertise.

> **KEY POINTS**
> - The logistics involved in shifting to remote work were astounding.
> - Such efforts are easier for larger organizations.

I'm also keenly aware that while being smaller might still hold a few advantages during normal times, it's next to impossible during times like these.

My business partner and I were once convinced autonomy was the only way. Yet on April 2, we closed on our eighth merger in the last 2½ years.

Over the years, we've adapted our philosophy of independence and, as we've grown, I've enjoyed the numerous freedoms that being part of a larger organization provides. (I've also witnessed the benefits that being part of a larger team bring to the smaller firms we've acquired.)

Never has being a part of a quality larger organization provided as much benefit for the braid of clients, advisers and staff as it does now.

The more things change, the more they stay the same. Whereas over the last decade, mergers and acquisitions were heavily valuation-driven, a new wave of operationally driven consolidations will almost certainly occur in the coming months and years as a result of this national emergency.

Scott Hanson is co-founder of Allworth Financial, formerly Hanson McClain Advisors, a fee-based RIA with $8 billion in AUM.

Try a nonfinancial emergency fund during the pandemic

You and your clients are going through an unprecedented crisis. But there are techniques to help you cope, starting with caring for yourself.

Hopefully, your clients have heeded your advice to build an emergency fund that can see them through if their income drops. But our finances are only part of the challenge we all face. We may also be struggling to stay mentally and physically strong during one of the most stressful and isolating times we've had to endure as a nation. With that in mind, help your clients — and yourself — prepare a nonfinancial emergency fund, too.

Like its financial cousin, the nonfinancial emergency fund can be called upon when times get tough. And just as it is wise to keep a financial emergency fund in cash, rather than something illiquid, you should ensure the nonfinancial emergency fund is also fast and easy to leverage. This can be as simple as an index card on which clients list three readily available activities that bring health and joy to their lives, such as:

- Walking the dog.
- Writing an email of thanks or gratitude to someone important to them.
- Taking a bath.

Consider not only a list of easy activities, but also photos that bring delight or comfort, small food items to savor or a list of phone numbers of people to connect with to reduce feelings of isolation.

Human beings have two nervous systems: sympathetic and parasympathetic.

GUESTBLOG
KOL CHU BIRKE

The sympathetic is the "fight or flight" nervous system that is useful when humans feel they're in danger. But this same system can push us toward instinctive actions that can hurt in the longer run.

The parasympathetic, on the other hand, is the calm, rational nervous system; it allows blood to return to the brain, resulting in clearer thinking. By taking nonfinancial emergency fund actions when we feel angry, scared or stressed, we can engage the parasympathetic nervous system — but only if we actually follow through. That's why it's critical that the actions are accessible and easy.

As financial advisers, we are doubly or triply at risk. Fee-based business revenues are shrinking while expenses stay the same. We are watching our own investments shrink as we are encouraged or forced to distance ourselves from those who bring us sanity. All the while, we must provide emotional strength and comfort to our clients and loved ones. This can lead to compassion fatigue. It may sound like an "out there" term but, much like post-traumatic stress disorder, it has been studied and is very real.

SUGGESTIONS

Although customizing these suggestions to your preferences is useful, it's most important just to take some positive, healthy actions. Here are a few possibilities:

Physical
- Make time daily for physical activity you enjoy (walk a pet or take an online yoga class).
- Try a quick power workout.
- Eat a healthy meal.
- Take a 20-minute power nap.

Mental
- Make or review a beloved photo album (physical or online).
- Practice meditation.
- Engage in spiritual or religious practices.

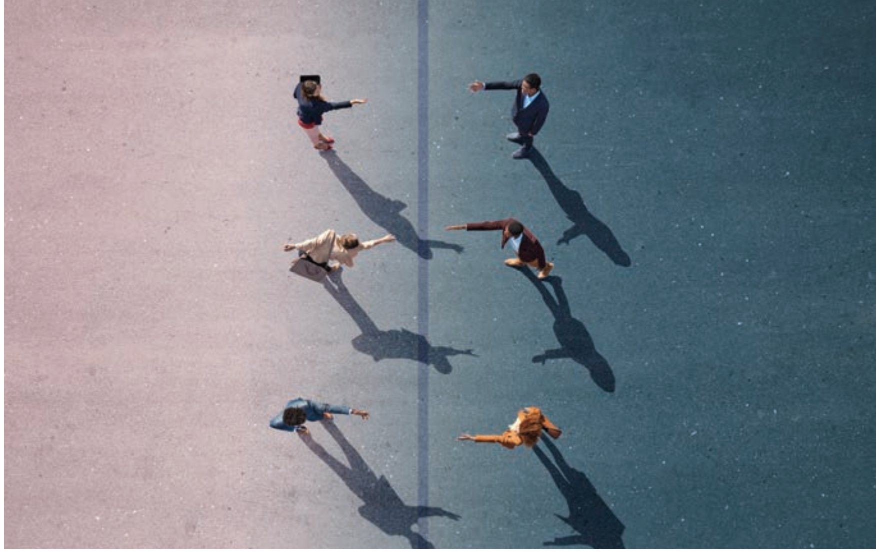
Relationship
- Make a list of three people who lift your spirits to call or video chat.
- Express your appreciation for something someone has recently done.
- Play a board game with a family member.

Purpose
- Volunteer (Check catchafire.org).
- Have video coffee with someone who is isolated.
- Check in with neighbors to see if they need anything.

JUST DO IT

It doesn't matter whether these activities feel perfect to you; it just matters that you do them. Start right now. Pick one. Do it. If it helps you feel better, add it to your list. If not, try something else. We have a sacred role in our team's and clients' lives. By keeping ourselves healthy, we can be at our best when they need us most.

Kol Chu Birke is managing principal of technology and corporate strategy, and a financial behavior specialist, at Commonwealth Financial Network.



What firms need to know about M&A in today's landscape

We're currently living in a time of uncertainty – one in which market volatility and a world pandemic have people, understandably, asking a lot of questions. Given my focus on mergers and acquisitions in the wealth management industry, two of the questions I've heard many times in the past few weeks are "What does market volatility mean for the M&A landscape?" and "What should potential sellers be thinking about?"

Here are a few key considerations for firms going forward in this environment.

What does market volatility mean for M&A?

First things first: It's important to understand that the drivers of M&A remain the same despite market volatility. While the circumstances have certainly changed, firms are still looking at M&A as a strategy for meeting their increasingly complex business needs. Especially in this environment, there's a desire on the part of many firm owners to recalibrate their time to focus on strategic business decisions rather than operations. M&A continues to be a logical choice for firms looking to build more sustainable platforms with improved technology to help provide a better client experience and scale more effectively. What's more, a lot of M&A activity has largely been focused on talent acquisition of both advisers and executives, and that's not expected to change. Firms are still looking for talent as aging advisers plan succession strategies and pave pathways to growth for younger talent.

GUESTBLOG
SCOTT SLATER

Firms can expect that capital will remain in the space and continue to reshape it. Large, well-funded private equity players have recognized this business for its steady cash flows, continued growth and value offered to investor clients.

Even with the changes happening around us, these elements have shown no sign of slowing down. In turn, we can expect M&A to continue in the long run. What's more, sellers who were previously slow to act on a deal may now be considering their options more seriously. We may see firms that have been contemplating a deal decide to move forward.

That said, the uncertainty around us will likely affect the number of deals happening in the near term as firms digest the impact of the market declines and the COVID-19 pandemic. And of course, advisers are busy helping their clients, which may cause M&A strategy to take a back seat for a while.

What should potential sellers be thinking about?

First, it's important to be realistic. A market decline brings with it a shift in the balance of negotiating power, from seller to buyer. In this environment, buyers will have more control and room to evaluate risk, and they can be more targeted in their search. Thus, sellers need to recognize that they will need to begin thinking about deal structures differently. There will likely be longer payouts and less upfront cash, for example, as buyers look for more protections against downside risk.

With the shift in negotiating power, firms also need to take the time to ask themselves, "Why does the buyer need my business?" Work to identify what is most attractive about your firm – whether that's a certain client mix, the talent you have, your geographic location or a highly efficient operating platform that will be easy for the buyer to integrate into its platform – and showcase those attributes in tangible ways the buyers will appreciate.

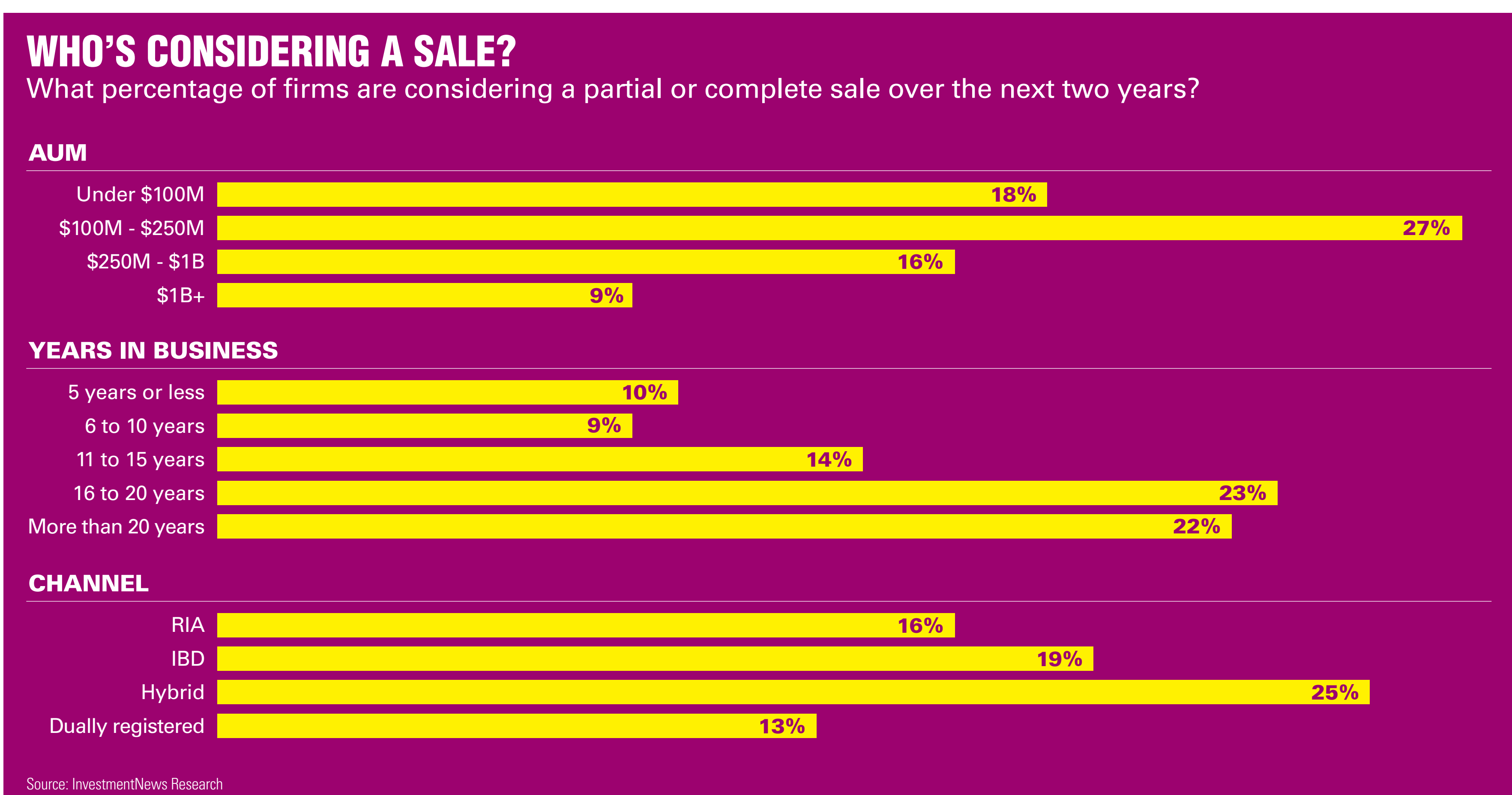
On a similar note, if you're considering a sale, try to find some time to work on an area of your business that can use improvement to make it even more attractive to potential buyers.

Second, potential sellers need to understand the motivations driving the deal to better showcase their value. M&A is emotional. So, firms should be asking themselves why they are coming to the deal and what they hope to gain – such as liquidity to exit the business, talent, or technology and platform opportunities.

But it's important to understand what the buyer wants, too. Fidelity's 2019 M&A Deal Valuation and Structure Study revealed that the failure to understand the synergies sought by buyers is one of the factors driving sellers to overvalue their business. Firms that are more aligned to a deal and have clarity on what result they want will have more confidence and may just negotiate a better outcome.

Wherever firms are in the process of selling – even if they aren't yet considering a deal – it's important to understand the current landscape and its impact on the space, and to prepare for the future.

Scott Slater is vice president of practice management and consulting for Fidelity Institutional.



State regulators concerned about COVID-19's effect on private markets

BY MARK SCHOEFF JR.

EVERY DAY INVESTORS can watch publicly traded stocks plummet in response to the havoc wreaked by the COVID-19 outbreak. State securities regulators are worried that the situation in private markets may be just as bad or worse, but that no one knows about it.

Christopher Gerold, chief of the New Jersey Bureau of Securities and president of the North American Securities Administrators Association, raised the issue April 2 at a meeting of the Securities and Exchange Commission's Investor Advisory Committee.

"While we have a very clear understanding of the market volatility and the impact of COVID-19 on the public markets, NASAA members are deeply concerned that we have no insight on the impact of COVID-19 on the private markets, especially those private companies that have retail investors," Gerold said. "We hope that the commission shares these concerns."

John Harrison, executive director of the Alternative and Direct Investment Securities Association, said that because private markets don't participate in daily secondary market trading, they are likely more stable during times of market volatility. There are no data to indicate investors in private markets are doing worse than those in public markets, he said.

KEY POINTS

- NASAA deeply concerned over lack of insight on situation in private markets.
- Of particular concern are sales of private placements.

Sales of unregistered securities, known as private placements, are typically a source of investor harm, according to NASAA enforcement statistics. State regulators expect similar problems related to the coronavirus outbreak as scamsters use private offerings to promote fraudulent stocks of companies purportedly making vaccines and protective equipment.

"We are also particularly concerned that people will be pitched on private placements because they appear more stable because there is no secondary market, and they are not being repriced on a daily basis, the same way public securities are," Gerold said.

ALTERNATIVE INVESTMENTS

Advocates promote private securities as alternative investments that can balance a portfolio and augment returns. They can be sold only to investors who meet certain income and wealth thresholds.

Seth Hertlein, executive director of public policy at FS Investments, an asset manager specializing in alternative investments, said Gerold raised good points.

"It is an unfortunate fact that cheats and scammers step up their nefarious activities in times of peril, making investor education and regulatory vigilance all the more critical in such times," Hertlein said in a statement.

The SEC has embarked on rule-making that would open more of the private market to ordinary investors. In a comment letter last month, NASAA urged the agency not to move ahead with new regulations unless they're accompanied by additional investor protections.

Barbara Roper, director of investor protection at the Consumer Federation of America and a member of the SEC committee, said the SEC should revisit investor protections surrounding the sales of unregistered securities.

In 2018, $2.9 trillion in capital was raised in the private market, compared to $1.4 trillion in the public market, according to the SEC.

Despite the market volatility caused by the pandemic, Finra has not noticed a significant increase in complaints from retail investors about possible rip-off schemes or specific investment products.

Instead, investors contacting the Financial Industry Regulatory Authority Inc. have expressed frustration with brokerage operations, Finra senior vice president Gerri Walsh told the SEC committee.

mschoeff@investmentnews.com
Twitter: @markschoeff

RayJay motion to vacate arb award denied by court

BY MARK SCHOEFF JR.

A FEDERAL JUDGE March 27 denied a motion by Raymond James to vacate a $1.8 million arbitration award in a case involving sales of penny stocks to elderly investors.

The decision by Judge Carlton W. Reeves of the U.S. District Court for the Southern District of Mississippi took the brokerage firm to task for trying to use a ruling by a Mississippi circuit court against separate plaintiffs regarding similar investments.

In the circuit court case, the plaintiffs failed to produce discovery documents and the judge granted summary judgment to Raymond James. The firm then tried to leverage that outcome against claimants in the arbitration case.

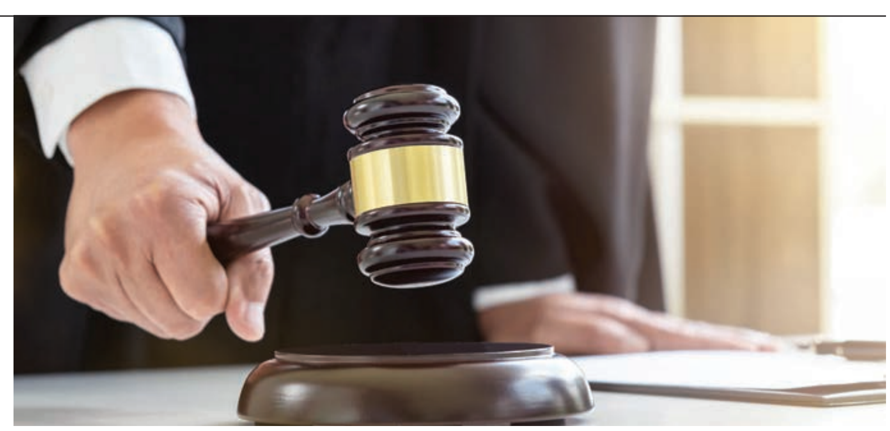
Reeves said that if the circuit court plaintiffs lacked evidence of Raymond James' concealment of the penny stock rip-off, it was not germane to the case heard in the Financial Industry Regulatory Authority Inc.'s arbitration system.

'SUBSTANTIAL' WRONGDOING

"Their failure says nothing about the [arbitration case] claimants' evidence of fraudulent concealment, which apparently was voluminous enough to support a 17-day arbitration," Reeves wrote. "As proven by a treasure trove of documents and testimony, the wrongdoing was substantial and extraordinary steps were taken to conceal the transgressions."

Raymond James argued that the arbitration panel intentionally disregarded the circuit court's ruling and that one of the arbitrators, Jim Warren, was biased against the circuit court judge.

"No amount of hand-waving over Jim Warren should take away from the reality that Raymond James' employees and managers defrauded their clients," Reeves wrote. "The panel made an explicit factual finding of fraud, and the Court is bound by that finding."



The original arbitration case was decided in the claimants' favor last May. The incident involved penny-stock investments in energy companies, which began in 2006 at a then-Morgan Keegan branch office in Jackson, Miss. Raymond James acquired the firm in 2012.

Attorneys for the plaintiffs, most elderly investors, criticized Raymond James for seeking to overturn the award.

'UPSET WITH THE DECISION'

"Just being upset with the decision is not what a motion to vacate is for," said Judson Lee, owner of an eponymous law firm in Madison, Miss. "If it's a tactic to get around the arbitration result, then that is reprehensible."

Another attorney for the plaintiffs said the decision on the motion to vacate was consistent with the arbitrators' ruling.

"It was a complete failure of [Raymond James'] management and a willingness to look the other way," said Robert Greenlee, a partner at Whitfield Law Group in Flowood, Miss.

A Raymond James spokesperson declined to comment.

mschoeff@investmentnews.com
Twitter: @markschoeff

Education is key for advisers to help Americans hurt by crisis

BY LIZ SKINNER

THE COVID-19 pandemic's impact on the global economy is still playing out, but it's already clear that low-income families, and even many of those with moderate wealth in the U.S., will soon be suffering from the financial fallout.

Jon Dauphiné, CEO of Foundation for Financial Planning, said financial advisers are uniquely positioned to help with the unfolding crisis by providing financial education and guidance as more Americans lose livelihoods and deplete meager savings.

Those struggling will need help deciding which bills to pay first, what loans to accept and even understanding what government aid they might qualify to receive.

"When you have such a limited margin for error, it's especially important that you have a plan," Dauphiné said.

KEY POINTS

- Stay abreast of available aid from state and federal agencies.
- Help prioritize bills and expenses.
- Register to be a pro-bono volunteer.

LIZ SKINNER: What is the COVID-19 pandemic showing you about the financial literacy of Americans?

JON DAUPHINÉ: The data point that stands out is that 40% of Americans have less than $400 for an emergency expense. COVID-19 is definitely like a Category 5 storm for people's finances. Weaknesses in the levees, weaknesses in our structure as Americans in our personal finance, are really tough at this point so as you are starting to see mass layoffs and unemployment, you are starting to see people who have had no cushion say, "I can't pay my rent, I can't pay my mortgage, I can't put food on my table." It's really unfortunately turning up the volume on the problems a hundredfold.

I think a lot of the measures coming from Capitol Hill and in the states are very necessary.

LS: What are you seeing happening in the non-profit sector?

JD: I'm seeing a kind of whiplash. There's so much going on and a lot of non-profit grantees that have one-on-one programs can't have people come into their offices right now. So, in addition to trying to navigate all the new provisions in the law that may help people who are economically vulnerable, they are also having to go virtual.

It's sort of a perfect storm. We are starting to see some of our programs adapting to provide virtual service, but it's going to take a little while, and it's a very challenging time.

LS: What role can financial advisers play at this time?

JD: One thing I think advisers need to do is to stay abreast of all the new benefits and new provisions in the laws that are coming out because these will impact both the paid client base and the pro bono client base.

JON DAUPHINÉ

On retirement for example, RMDs, that type of thing, including cash payments to lower income Americans who are really struggling and might need an adviser to help them prioritize with the scarce resources they do have, or that they might have coming during the next couple months. On our website we have a COVID-19 resource center so advisers have a one-stop place for advisers.

We also are recommending advisers register to be a pro-bono volunteer at www.CFPVolunteerMatch.org. These advisers will automatically be emailed when opportunities become available either in their location or virtually.

LS: Could it be used as a stimulus to show the importance of improving finlit in this country?

JD: I would like to believe that it will become a catalyst for more of a nationally coordinated effort to help with financial literacy and the broader term of financial capability.

I do think that when we are swamped by a crisis of this magnitude, it lays bare the very significant gaps in our social safety net and in the way families can prepare and can access help in a crisis. It's really important to look at all of that and assess it and come up with a range of policy interventions, education interventions and ways that nonprofits like ours can really come together.

We are seeing an impulse to really support each other and financial advisers want to help. Financial advisers as experts have a great role to play as volunteers and leaders in our communities on advancing financial capabilities and financial literacy, and bringing pro bono planning to people as well. We have a bias in our society that lower and moderate-income people don't need to plan because they don't have enough.

This is showing that the opposite is true. When you have such a limited margin for error it's especially important that you have a plan.

lskinner@investmentnews.com
Twitter: @skinnerliz

Be ready to guide clients to rebalance, not head for the hills

BY JEFF BENJAMIN

AS IF FINANCIAL planning in a COVID-19 world wasn't difficult enough, Congress has decided to grease the skids for investment declines by opening the doors to withdrawals from qualified retirement savings plans.

This is not to suggest that the global pandemic doesn't represent a serious threat to the health and finances of way too many people. But it's already clear that many individual investors downplay the need for retirement savings.

While one can appreciate lawmakers' efforts to soften the blow from the slowing economy and the spike in unemployment, and provide as much assistance as possible, removing the gates on retirement plan assets is one area where financial advisers should be standing by to help clients assess how the immediate need compares to the potential longer-term consequences.

SELLING LOW

According to Fidelity Investments, last year at this time the average 401(k) plan balance was $106,000, up just $2,000 from a year earlier.

Nobody in their right mind really wants to know what that average looks like today. But with the S&P 500 Index down about 19% from the start of the year – after having been down as much as 30% – you can bet that anyone taking advantage of Congress' easing of the rules around withdrawals from retirement plans will be selling low.

These are difficult and uncertain times, and the unprecedented $2.2 trillion stimulus package is testimony to that. But it is hard to imagine that removing the 10% penalty for early withdrawals from retirement plans won't encourage some bad retirement saving behavior.

$149B
MUTUAL FUND OUTFLOWS DURING WEEK ENDING MARCH 25

According to a report out last week from Empower Retirement, which surveyed 2,000 Americans during the third week of March, 27% of respondents are planning to sell or cash out their retirement accounts. And that was before Congress eased the restrictions. The latest data from the Investment Company Institute also indicate a move toward the exits.

During the first two months of the year, just before the coronavirus started gaining real speed in the United States, there were nearly $72 billion of net outflows from domestic equity mutual funds. That compares to $7 billion worth of net outflows during the same two months a year ago, when the stock market was recovering from a 20% drop at the end of 2018.

The ICI's most recent data show $149 billion worth of net outflows from mutual funds during the seven-day period that ended March 25. That's after net outflows of $135 billion the previous week, and net outflows of $27.8 billion two weeks ago.

For the seven-day period through March 25, ICI reports money market fund assets increased to $4.2 trillion, up from $3.9 trillion a week earlier, and $3.8 trillion two weeks earlier.

Rebalancing is one thing, but heading for the hills, assuming there are alternatives, will make the pain of this awful pandemic even worse when it's over.

jbenjamin@investmentnews.com
Twitter: @benjiwriter

PORTFOLIO MANAGER VIEWPOINT

ROBERT SOFIA
CEO
Snappy Kraken

PATRICE KELLY
CCO
Snappy Kraken

ANGEL GONZALEZ
CMO
Snappy Kraken

ANTHONY STICH
COO
Advicent

JAMES GALLARDO
Senior Research Analyst
InvestmentNews

MATT ACKERMANN
Director of Multimedia
InvestmentNews

VISION 2020: TECHNOLOGY CHALLENGES AND OPPORTUNITIES FOR THE DECADE AHEAD

Matt Ackermann and James Gallardo of *InvestmentNews* joined Snappy Kraken's Robert Sofia, Patrice Kelly, and Angel Gonzalez, and Anthony Stich of Advicent about tech solutions for the advice industry.

ACKERMANN: ***What does your research show as major tech trends?***
GALLARDO: Average tech spending at practices has passed the six-figure mark for the first time, and tech is the only line item that has kept up with revenue growth. Most firms have their core tech stack in place: Ninety percent have a CRM and financial planning software, and about three-quarters have portfolio management tools. There's recent growth in niche items like back-office solutions, compliance and document management, and client-facing tools like account aggregators, portfolio rebalancers, risk analytics tools, and digital marketing. Aside from e-signatures portals and video conferencing software, few firms have adopted client-facing solutions. Firms want to make sure that their tech is helping the bottom line, being leveraged to the maximum potential, and enhancing the client experience.

ACKERMANN: ***Why is technology necessary in a decade of disruption?***
STICH: We're in the third wave of financial planning—the synthesis of cash flow– and goals-based planning that can be offered more comprehensively to a larger investor population because of technology. Investors often do their planning at night, and if we're not there digitally to answer questions or provide research, a robo or Google will.

ACKERMANN: ***How do you persuade reluctant advisers?***
SOFIA: This is an oversimplification, but at its most basic it's the ability do more with less. The more work you can do in less time, the more profitable you'll be and the more you can grow.

ACKERMANN: ***Talk about opportunities that the right technology creates for advisers.***
GONZALEZ: You can automate tedious and low-value activities but also high-value ones to help you scale. Onboarding, for example. If you want to make people feel overjoyed that they have become your client, you have to automate touchpoints and outreach. Key communications should go out with a certain frequency. Set up the expectation that they can engage with your practice. You can automate prospecting via a series of emails and other content delivered in automated sequence to showcase who you are as an adviser. You can run lead-generation and awareness campaigns with a series of emails and social media posts, landing pages with some type of offer, maybe a retirement checklist. To encourage referrals, you can queue up messages that help clients refer business and that prime them with the value you've provided.

ACKERMANN: ***How does branding work with the tech piece?***
KELLY: It corresponds with the idea of maximizing advisers' time and ability to engage with clients and be important to them—that stickiness we talk about. Successful marketing captures the thing that's special about you. If you follow what others are doing, there's nothing distinctive or compelling. In a room full of rows of brown couches, what do you look at? You're going to look at the one blue couch. ■

To learn more, please visit www.investmentnews.com/innovatorstech2020

529 PLANS

CONTINUED FROM PAGE 4

your bills, living your life," she said.

Families who are struggling financially might be considering cashing out their 529 accounts in order to pay for necessities like groceries and housing costs, said Paul Curley, director of savings research for 529 and ABLE solutions at ISS Market Intelligence.

Pulling money out of those accounts for noneducational uses can carry a 10% penalty in addition to taxes on the investment gains, Curley said.

For savers near matriculation whose portfolios have taken a serious hit, one option is to wait to use the assets until their junior or senior year, he said. That strategy gives the assets time to recover.

'HAVE A PLAN'

"The key is to have a plan, control what clients can control and be flexible when evaluating options," Brock Jolly, managing partner at The College Funding Coach, said in an email.

Some clients "are looking at putting money into their 529 plans to take advantage of the downturn in the economy, in hopes of riding things back up before their children use the money," Jolly said. "For families with multiple children, we may look at moving money in 529 accounts to younger children and plan to use other assets with lower correlation to the market for older children."

One adviser recently spoke with a prospective client whose college-student daughter had a 25% equities allocation in her account, while a younger daughter had a slightly higher allocation. The adviser suggested putting the remainder of assets in the college student's account into Treasuries.

"There are enough funds to effectively cover her to graduation, even if they end up paying the government to hold their money," Barry Korb, financial adviser at Lighthouse Financial Planning, said in an email. "Why risk being short in covering the senior year for a possible gain that could be put toward the younger daughter?"

Another adviser, Wayne Zussman, principal at The Colony Group, wrote, "I am advising my younger clients who usually contribute toward year end to make their annual contributions now, and even consider making two years of contributions to take advantage of the market declines."

> **"THERE WEREN'T MANY PLACES FOR INVESTORS TO HIDE."**
>
> MADELINE HUME, ANALYST, MORNINGSTAR MULTI-ASSETS AND ALTERNATIVES TEAM

ehallez@investmentnews.com
Twitter: @emilehallez

FINRA RULE

CONTINUED FROM PAGE 4

one or more "final criminal matters" or two or more other specified disciplinary events in the last five years. That also extends to promotions of existing employees into leadership roles.

In the proposal, Finra said it is trying to target brokers who have checkered disciplinary pasts earlier than it can through examinations or enforcement actions.

"Finra is taking steps to strengthen its tools to respond to brokers with a significant history of misconduct and the firms that employ them," the proposal states.

Ben Edwards, an associate professor of law at the University of Nevada at Las Vegas, said the proposal addresses potential investor harm that can occur while disciplinary wheels turn.

"The real danger to investors is that an enormous amount of damage can be done while a proceeding is pending," Edwards said. "It creates an incentive for firms not to hire these guys, even if they have a big book of business."

'STEP IN THE RIGHT DIRECTION'

Lisa Braganca, a securities attorney in Skokie, Ill., said the proposal is a "substantial step in the right direction" because it allows Finra to protect investors during what could be a lengthy disciplinary appeals process.

"Heightened supervision is something that should be used more often," Braganca said.

Finra has been under pressure for years to crack down on recidivist brokers, also known as rogue brokers, who have long disciplinary records.

The proposal it sent earlier this month to the SEC was first floated in 2018. It is one of several steps it's taken over the last few years to address the problem.

Another proposal Finra is poised to file with the SEC would impose increased capital requirements on firms that hire a high percentage of brokers with long disciplinary histories.

Ultimately, investors must be able to easily understand that a firm and brokers are being targeted as repeat offenders. Experts aren't sure the Finra proposal would produce such illumination.

"It's not clear it would be meaningful to investors doing their homework and trying to understand what's going on," said Laura Posner, a partner at Cohen Milstein. "In an ideal world, there would be something in BrokerCheck that would allow an investor to understand that some form of disciplinary proceeding is underway and that the broker is subject to higher supervision by the firm."

BrokerCheck, the public database that contains profiles of registered representatives, should include explanations of terms such as "taping firm," Edwards said.

"As Finra adds these disclosures, it's important that they provide context about what these disclosures really mean," he said.

The SEC must approve Finra rules. The agency could put the Firna proposal out for public comment.

mschoeff@investmentnews.com
Twitter: @markschoeff

REG BI

CONTINUED FROM PAGE 3

he is telling financial firm clients not to take their foot off the implementation pedal and to show their work.

"Do as much as you can under the circumstances and document what you've done," Stadulis said.

James Lundy, a partner at Faegre Drinker Biddle & Reath, said most firms have been taking the implementation of the SEC's investment-advice reform package seriously since it was approved last June.

"It's going to be a small percentage of firms who are going to be vulnerable to [examination] findings that they failed to make a good faith effort on implementation," Lundy said.

IMPLEMENTATION CHALLENGES

Even if a brokerage remains diligent in its efforts, it is likely to face challenges on Reg BI implementation while its staff works remotely.

For instance, Stadulis said identifying potential conflicts of interest and establishing policies and procedures to address them will be difficult.

"It's a thought-intensive provision that requires [staff] coordination, and that may be tough to do remotely," he said.

Putting together compliance procedures to ensure investment recommendations are in clients' best interests and aligned with their risk profiles will also be a heavy lift given firms' operational disruptions, Abughazaleh said.

But the market volatility caused by the coronavirus may help on that front, as it is forcing brokerages to help their clients and their registered representatives understand heightened risk and to calibrate it to clients' tolerance.

"Technologies and data modeling to support those two things can also be very helpful in getting you closer to being ready for the [Reg BI] care obligation," Abughazaleh said.

mschoeff@investmentnews.com
Twitter: @markschoeff

FED AID PACKAGE

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they're going to do what is necessary to keep this economy afloat."

The financial markets responded favorably to the Fed's second stimulus package on the last trading day of the week before the markets closed for Good Friday, but the unprecedented nature of it all has industry veterans wondering where such an open-ended effort could lead.

"[Last week], for the first time ever, the Fed bought junk bonds, and [the week before that] for the first time ever the Fed bought corporate investment-grade bonds," said Scott Colyer, chairman and chief executive of Advisors Asset Management.

"We've never seen anything like this, even during the Great Depression the Fed never bought corporate obligations," he said. "They're certainly being creative."

UNCHARTED TERRITORY

The Fed's creativity, which includes leveraging loans from the Treasury, is also forcing advisers and their clients to wade into uncharted territory.

"Advisers should unequivocally become experts on the stimulus measures because their clients, particularly business owners, are looking for guidance in this period of unprecedented uncertainty," said Vance Barse, founder of Your Dedicated Fiduciary.

Sanctuary Wealth's Dickson said the initial reaction from potential borrowers falls into three camps.

"There are businesses that absolutely have to have the money to survive and will have to accept the conditions, and then way on the other end are businesses that haven't been affected as much and would only take the loans if the terms are right," he said. "And then, like a normal bell curve, there's everyone in the middle."

Dennis Nolte, vice president at Seacoast Investment Services, said helping clients navigate the new lending process has become a special kind of challenge, and everyone is working harder.

'DOING LOANS TILL 3 A.M.'

"I spoke with one of our bank's commercial lenders yesterday and he'd mentioned that he was up doing loans till 3 a.m. the first two days of the program," Nolte said. "Our department head today talked about how to work with the clients that are both wealth and banking clients, so they don't get stuck in the application process. There is so much demand."

Jim Caron, head of global macro strategies at Morgan Stanley Investment Management, gives the Fed credit for opening up its wallet to send the message that help is on the way. But he says execution will continue to be a challenge.

"The lending program covers just about everything under the sun, and it's just part of the support facilities out there, because the Fed is trying to create an asymmetric risk profile and give confidence to people like myself to come in and invest," he said. "If the government is buying it, I know where the floor is."

Caron said that while the lending program process could be confusing at first, the effort should provide a sense of security to consumers and the markets.

"This is all unprecedented and these are numbers that aren't even in the ballpark of what was done in the past," he said. "One reason why these programs have been able to be created very quickly is because the metric is very clear. It is jobs lost. In 2008 it was the banks, leverage and whoever else was to blame. This time it's nobody's fault, but it's pretty clear where the pain is and what needs to be done."

jbenjamin@investmentnews.com
Twitter: @benjiwriter

401(K) MYSTERY

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disclosure: My account was not yet funded at the time of this writing.)

To the record keeper's credit, a rep called me back and answered all my questions. I had also contacted the company's public relations department, requesting comment for this story, which they acknowledged was the reason for the follow-up call. A spokesperson cited customer confidentiality — in this case, mine — in referring a request for comment.

The plan sponsor, which administers company benefits for *InvestmentNews*, said in a statement that it "strives for transparency with the administrative fees charged on its 401(k) plans."

"While the plan sponsor is ultimately responsible for providing the 404(a)5 fee disclosure notice, [the record keeper] handles this on our behalf."

It should not be this hard to find out how much something costs.

NEW REQUIREMENTS

Ten years ago, the Labor Department seemed to agree. It moved forward with two new requirements that the industry generally resisted: one making record keepers responsible for communicating fees to plan sponsors, and another tasking plan sponsors to give participants information about what they pay.

Under those rules, retirement savers must receive a list of possible charges before they direct their first investments, as well as annually. They must also receive quarterly statements showing the dollar amounts they have paid in plan fees.

But in practice these requirements are weak, and they cater to the industry.

Would it be fair to provide drivers with a wide range of gasoline prices at the pump, but only tell them what price they have paid after filling up? Would that fly in any business situation in which consumers want to know how much they'll be paying for something?

The way the DOL's rules are set up is problematic. Plan sponsors are on the hook for providing the necessary disclosures to participants, but they are often ill-equipped to do so, and they instead rely on record keepers to handle those issues, said Jason Roberts, CEO of the Pension Resource Institute.

"The expectation when those rules were written is that the plan sponsor now has definitive information about record-keeping fees that it can relay to participants," Roberts said. "The buck stops at the plan sponsor … [But] 99% of the plan sponsors are going to rely on the record keeper to generate that."

NO LIABILITY

What that means is that the entities that most often provide the information to participants — record keepers — have no liability to do so. Since those requirements went into effect in 2012, retirement plan service providers have generally complied with the letter of the law, but not necessarily the spirit of it, Roberts said.

The DOL had planned to revisit the record-keeper disclosure rule, which could have led to more stringent standards that would have benefited consumers, he noted. But under the Trump administration, the DOL nixed the plan.

I know that plan participants are almost always disconnected from the details of their plans. The reason why automatic enrollment and annual contribution escalation have been so effective is because of participants' inertia.

But people might be more interested in plan fees if they knew how much they were paying. After all, the "The Price Is Right" always lets its viewers know the price of a commodity, and it's survived on the air for more than 50 years.

ehallez@investmentnews.com
Twitter: @emilehallez

LPL HALTS SALES

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rarily suspend new purchases of certain products. These suspensions are not the result of any action taken by the product sponsor and instead are directly correlated to the market dislocation. LPL hopes to offer these products again soon as we gain a better understanding of the valuations of the underlying assets."

Mohs described LPL's strategy as "throwing up the caution flag and trying to avoid any future lawsuits by investors who might be overpaying" for assets that are going to be difficult to price in the current market environment.

"Many of the property funds are funds of funds, so there are several layers of uncertainty," he said. "If you can't value the commercial property, you can't value the shares of the funds holding that commercial property. LPL's decision is defensible and fair, because there's going to be a wide divergence in how the underlying real estate performs."

Interval funds are required to repurchase shares at fixed intervals to provide liquidity to investors.

They're a kind of closed-end fund and usually hold less liquid assets, which is why portfolio redemptions are typically limited to 5% of total fund assets per quarter, divided among the investors requesting redemptions.

While it makes sense for companies to restrict sales when the value of underlying assets might be difficult to price, interval funds are uniquely suited for a volatile and uncertain economic environment. The structure prevents investors from panic selling, which allows portfolio managers to avoid having to sell at fire-sale prices.

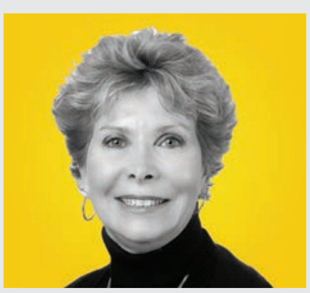
"Right now, LPL is going to be extra cautious because brokers have had issues in the past with nontraded REITs," said Dick Pfister, founder and president of AlphaCore Capital.

jbenjamin@investmentnews.com
Twitter: @benjiwriter

InvestmentNews

RESOURCES FOR FEMALE ADVISERS

InvestmentNews continues to champion female advisers throughout our editorial coverage, awards, recognition programs and events.
As financial advisers look for guidance on how to navigate during this unprecedented time, here are some resources for our females advisers.



MAY 8 | 2:00 PM EST

Web Seminar: COVID-19 Impact on Social Security Decisions

The historic stock market turbulence and economic impact of the COVID-19 worldwide pandemic threatens countless retirement plans, particularly for clients in or near retirement. Learn about their Social Security claiming options, consequences and the possibility of do-over strategies in the future as the retirement income landscape is redrawn. The session will end with time for Q&A.

SPEAKER:
Mary Beth Franklin, CFP
Contributing Editor, *InvestmentNews*
1 CE credit.

MAY 14 | 11:00 AM EST

Women Adviser Virtual Summit

Our Women Adviser Summit is going VIRTUAL. The video-conference version will feature a two-hour morning session and a two-hour afternoon session. Speakers will focus on how to communicate differently with clients and prospects in the face of business challenges we're all going through.

For more details and to register please visit inwomenadvisersummit.com

ONGOING

Her Success Matters

This all new podcast series, hosted by *InvestmentNews* CEO, Christine Shaw, discusses inspiring more women to work in the financial services industry, and educating those in the profession on how to attract, hire and retain the best female talent.

The latest episode features Mellody Hobson, Co-CEO of Ariel Investments, on standing out in the C-Suite, and how the industry must adapt and evolve in the current global environment.

LISTEN HERE:
investmentnews.com/podcasts/her-success-matters

We hope you find these resources helpful and can join us for these web events from the comfort of your desk.